

**The Business of Magic**

***How the Disney marketing machine generates billions.***

by [Ryan Tracy](http://www.newsweek.com/authors/ryan-tracy.html) November 03, 2010

[](http://www.newsweek.com/photo/2010/10/27/successful-people-who-rebounded-from-early-failure.html)

Disney CEO Robert Iger likes to talk about the “Disney difference,” that special bit of magic that sets his company apart from other media conglomerates. The company enjoys “unrivaled” success in selling global franchises, he told shareholders in 2008. CEOs are wont to brag, but in this case Iger is stating facts. Disney has demonstrated a consistent ability to turn almost anything it touches into a cash machine, with [*Toy Story 3*](http://www.amazon.com/Story-Four-Disc-Blu-ray-Combo-Digital/dp/B003XKPPOU/ref=sr_1_1?s=dvd&ie=UTF8&qid=1288887041&sr=1-1), this summer’s megahit, the latest example.

The go-to explanation for why the Disney empire is so successful—valued at $68 billion—is its intellectual property. No other company has such a stockpile of well-known, cute, family-friendly, and highly marketable characters. But analysts like to point out that it takes more than a stockpile to do what this giant has done. Hand each of the global media companies “an equivalent piece of content, [and] Disney would make the most money pound for pound,” says Anthony DiClemente, an analyst at [Barclays Capital](http://www.barcap.com/). The reason: Disney has had decades of solid experience in the logistics of how to make a product—whether it’s a TV series or an animated film—how to ship related merchandise, how to price said merchandise, and how to market all of the above, anywhere in the world. The result is a series of successful projects conceived, built, and sold through Disney’s various branches.

Take *Toy Story 3*. The family-friendly film itself is signature Disney. After a global marketing campaign, the movie opened June 18, earning $1 billion at the box office, more than any other film this year and any other animated film in history. But that was just the beginning. Disney’s well-oiled consumer-products division had prepared to sell [action figures](http://www.amazon.com/Toy-Story-Talking-Buzz-Lightyear/dp/B002B7JY66/ref=sr_1_12?s=toys-and-games&ie=UTF8&qid=1288887156&sr=1-12), [apparel](http://www.amazon.com/s/ref=amb_link_353020562_7?ie=UTF8&keywords=%26%2334%3BToy%20Story%203%26%2334%3B%20&rh=n%3A1036592%2Ck%3A%26%2334%3BToy%20Story%203%26%2334%3B%20&pf_rd_m=ATVPDKIKX0DER&pf_rd_s=center-2&pf_rd_r=0XBDMQR54E1P665V7W2E&pf_rd_t=101&pf_rd_p=1263973402&pf_rd_i=2303481011), [books](http://www.amazon.com/Story-Storybook-Collection-Disney-Collections/dp/1423115740/ref=sr_1_12?s=books&ie=UTF8&qid=1288887235&sr=1-12), [magazines](http://www.amazon.com/STORY-COLLECTORS-MAGAZINE-Story-Summer/dp/B0046CSHV2/ref=sr_1_2?ie=UTF8&s=books&qid=1288887293&sr=8-2), [collectibles](http://www.amazon.com/Story-Deluxe-Lotso-Collectible-Figure/dp/B0030E3WJE/ref=sr_1_9?s=toys-and-games&ie=UTF8&qid=1288887198&sr=1-9), and [more](http://www.amazon.com/b/ref=sr_tc_sc_2_0?node=2303481011&pf_rd_r=02PSW9T4ZS5VQHA77THT&pf_rd_m=ATVPDKIKX0DER&pf_rd_t=301&pf_rd_i=toy%20story%203&pf_rd_p=1263946542&pf_rd_s=structured-results-2&qid=1288887338&sr=8-2-tc), all featuring the movie’s popular characters. By August, Disneyland Paris was ready with Toy Story Playland, a new attraction years in the making but opened the same summer the hit movie was released. Walt Disney World already had a [Toy Story Mania!](http://disneyworld.disney.go.com/parks/hollywood-studios/attractions/toy-story-mania/) attraction, but revamped the ride’s 3-D experience to include one of the new characters. The company’s interactive division pumped out videogames for [Nintendo](http://www.amazon.com/Toy-Story-Video-Game-Nintendo-Wii/dp/B0038MUCWS/ref=sr_1_1?s=videogames&ie=UTF8&qid=1288886918&sr=1-1), [Xbox](http://www.amazon.com/Toy-Story-Video-Game-Xbox-360/dp/B0038N0A24/ref=sr_1_1?ie=UTF8&s=videogames&qid=1288886893&sr=1-1), [PlayStation](http://www.amazon.com/Toy-Story-3-Video-Game-Playstation/dp/B0038MUCPK/ref=sr_1_2?s=videogames&ie=UTF8&qid=1288886918&sr=1-2), and [PC](http://www.amazon.com/Toy-Story-3-Video-Game-Pc/dp/B0038MUCLE/ref=sr_1_6?s=videogames&ie=UTF8&qid=1288886918&sr=1-6). It also produced apps for the iPad and mobile phones.

And when Disney wants to generate additional buzz on TV, it can do so through its network channel, ABC, or cable channels such as the Disney Channel, which is known for being a star maker on its own. Add to this Disney’s knowledge of its audience around the world, and you end up with a company that knows at what price Japanese consumers will buy the most Mickey Mouse hats and how to efficiently distribute [Winnie-the-Pooh](http://www.amazon.com/Many-Adventures-Winnie-Pooh-Anniversary/dp/B00005T7HD/ref=sr_1_6?s=dvd&ie=UTF8&qid=1288887415&sr=1-6)-themed English-learning kits in China. “This is valuable [information] that’s not so easy for other companies to obtain,” says veteran media analyst Howard Vogel, an adjunct professor at Columbia University.

That’s largely because Disney has honed this knowledge over decades through a series of firsts in its field. The 1928 Mickey Mouse cartoon [*Steamboat Willie*](http://www.amazon.com/Vintage-Mickey-Walt-Disney/dp/B0007Z9QWQ/ref=sr_1_1?ie=UTF8&s=dvd&qid=1288887480&sr=1-1) was the first cartoon with sound to be an international hit, giving the company domestic and overseas distribution experience. Five years later, when few in Hollywood were willing to believe that audiences could stomach feature-length animated films, Disney found a hit with [*Snow White and the Seven Dwarfs*](http://www.amazon.com/White-Dwarfs-Three-Disc-Blu-ray-packaging/dp/B001V9LPWQ/ref=sr_1_3?s=dvd&ie=UTF8&qid=1288887525&sr=1-3)*,* which also helped it develop its approach to family-friendly franchises. In the 1950s Disney was among the first studios to produce television programs. The series [*The Wonderful World of Disney*](http://www.amazon.com/Wonderful-World-Disney-Wild-Country/dp/B0029JH4HW/ref=sr_1_2?s=dvd&ie=UTF8&qid=1288887576&sr=1-2) provided ample experience in promoting properties across different media, and its TV series [*Davy Crockett*](http://www.amazon.com/Walt-Disney-Treasures-Crockett-Televised/dp/B00005KARG/ref=sr_1_2?s=dvd&ie=UTF8&qid=1288887635&sr=1-2) proved that a single TV character could do well in a large U.S. merchandise market.

Then there is Disneyland, the theme park that created the theme-park business when it opened in 1955. Not only did it give existing franchises new life by providing a space for rides like Snow White’s Scary Adventures, but it monetized that engagement. There’s also the Disney Channel, which provided a platform for cross-promotion on cable, and the Disney Stores, which offer international merchandising options. Simply put, when it comes to taking a franchise global, “Disney has a much more robust, mature, well-built-out global licensing operation” than the rest of the industry, says DiClemente.

But even the most magical company in the business has had some setbacks. As younger generations turn to the Internet for media consumption, Disney has joined the droves of corporations searching for profitable ways to reach them. Based on the box-office hit trilogy [*Pirates of the Caribbean*](http://www.amazon.com/Pirates-Caribbean-Trilogy-Blu-ray-Johnny/dp/B001BKZD7S/ref=sr_1_1?s=dvd&ie=UTF8&qid=1288887677&sr=1-1)*,* Disney launched a Web-based game called Pirates of the Caribbean Online and released [several videogame titles](http://www.amazon.com/s/ref=nb_sb_noss?url=search-alias%3Dvideogames&field-keywords=pirates+of+the+caribbean&x=17&y=21) as well. Despite such big-name games, the interactive division lost $130 million in the nine months that ended July 3, according to its most recent quarterly report. It was the only Disney division in the red.

Vogel points out that Disney Interactive is new and that all large organizations have great difficulty when developing a new division. But Disney had already taken other steps to make up for the loss. In July it announced it had acquired [Playdom](http://www.playdom.com/), which makes popular online social games, and Tapulous, a developer of games for mobile devices. Playdom’s former CEO now runs Disney Interactive, while Tapulous’s former CEO heads Disney Mobile. Disney also hired James Pitaro, a former Yahoo Media vice president, to take over Disney.com and other online properties. The new blood will be charged with implementing a strategy designed to make Disney Interactive profitable, starting with a revitalization of Disney.com and Epic Mickey, a new videogame title.

The reality, for now, is that the interactive division’s revenues are a pittance in terms of Disney’s overall business. It represents just two cents of every dollar the company brought in during the nine months that ended July 3. Disney’s interactive group brought in $573 million in revenue during that period, compared to more than $27 billion from the company’s other branches. Until it can monetize its online content, the company appears well positioned to absorb related losses. If anything, Disney’s ability to roll out a hit franchise across all its branches is actually expanding. Last year it acquired [Marvel](http://www.amazon.com/gp/search/ref=sr_tc_2_1?rh=n%3A4400%2Ck%3Amarvel+comics&keywords=marvel+comics&ie=UTF8&qid=1288887835&sr=8-2-tc), the comic-book giant, giving it the rights to [Spider-Man](http://www.amazon.com/Amazing-Spider-Man-Vol-Marvel-Masterworks/dp/0785136924/ref=sr_1_1?s=books&ie=UTF8&qid=1288887870&sr=1-1), [Iron Man](http://www.amazon.com/Invincible-Iron-Man-Vol-Nightmares/dp/0785134123/ref=sr_1_5?s=books&ie=UTF8&qid=1288887909&sr=1-5), the [Incredible Hulk](http://www.amazon.com/Incredible-Hulk-Planet-Greg-Pak/dp/0785120122/ref=sr_1_3?s=books&ie=UTF8&qid=1288887964&sr=1-3), and other franchise characters. While Marvel’s previous contracts will prevent Disney from cashing in on those names for years, DiClemente of Barclays notes that with Disney’s track record the Marvel acquisition could be lucrative over the long term. Oh, and the company recently announced that the *Fantasy,* Disney’s fourth Caribbean cruise liner, makes its maiden voyage in 2012. Yes, [Disney has a cruise business](http://disneycruise.disney.go.com/), too.